

State of California

DEPARTMENT OF MOTOR VEHICLES



AUDIT REPORT

NATIONAL AUTOMATED  
CLEARING HOUSE  
ASSOCIATION (NACHA)

2009



Audits Office



## MEMORANDUM

**Date** : November 18, 2009

**To** : Pam Mizukami, Acting Deputy Director, Administrative Services Division  
Steve Westerman, Deputy Director, Information Systems Division

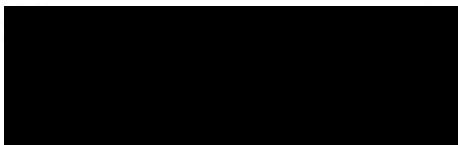
**From** : Grace M. Rule-Ali, Manager  
Information Systems-Requester Audit Section

**Subject** : **2009 National Automated Clearing House Association Audit - Final Report**

The Audits Office has concluded the National Automated Clearing House Association (NACHA) Audit for the month/year ending November 2009. For your information, we have attached the audit report entitled "*Final Audit Report - National Automated Clearing House Association Audit*".

During the audit, we did not identify any items that would warrant corrective action from the Administrative Services Division (ASD) or the Information Systems Division (ISD). In follow-up to audit findings observed during the 2008 NACHA audit review period, we note that the Department has implemented corrective measures to address these items. As such, no action is required from ASD or ISD for this audit.

We thank the management and staff from the ASD and ISD for their cooperation and courtesy extended to our auditors during this audit. If you have any questions please contact me at 657-5828.



**GRACE M. RULE-ALI, Manager**  
Information Systems-Requester Audit Section

Attachment

cc: S. Paulette Johnson, Chief Information Security Officer  
Jeff Mansur, Chief, Financial Services Branch  
Amran Din, Manager, eServices Group and WSI Technical Manager

**FINAL AUDIT REPORT**  
**CALIFORNIA DEPARMENT OF MOTOR VEHICLES**  
**NATIONAL AUTOMATED CLEARING HOUSE ASSOCIATION (NACHA)**

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## EXECUTIVE SUMMARY

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The California Department of Motor Vehicles (DMV) provides services to its customers by internet (online), mail, telephone, and through DMV field offices and qualified private industry partners. This audit focuses solely on the online services provided by DMV limited to the Electronic Funds Transfer (EFT) e-check payment option. The e-check payment option allows customers without a credit card, but who have a bank account, to process specific DMV transactions on-line. Currently, DMV services provided to customers using the e-check payment option include renewal of a vehicle registration and renewal of a driver license.

The DMV processes online EFT e-check payments through its Automated Clearing House (ACH) provider using the <sup>1</sup>ACH Network. The ACH provider for DMV during the review period July 1, 2008 – June 30, 2009 was Union Bank. However, we note that the DMV changed its ACH provider to Citibank as of July 1, 2009. NACHA, the Electronic Payments Association, oversees the ACH Network and requires all ACH Originators of internet-initiated entries with the standard entry class code of “WEB” conduct an annual audit of its procedures concerning the security and protection of consumer information. The DMV originates WEB transactions and is required to conduct an annual security audit in accordance with the requirements of Appendix Eight, Article Three, Section 3.10 of the 2009 ACH Rules Book no later than December 1 of each year.

We conducted our audit fieldwork at DMV Headquarters complex during the months of October and November 2009. Our fieldwork included interviews with DMV staff located within various areas of the Administrative Services Division and Information Systems Division. As well, we obtained relevant information from the Office of Technology Services (OTech), formerly known as Department of Technology Services (DTS) 2009. Our audit included an examination of DMV’s on-line EFT e-check payment processes. The scope of the review covered fraud detection, verification of routing numbers and Receivers identity, physical security, personnel and access controls, and network security in place to protect the financial information DMV receives from its customers.

Our evaluation found that current security controls in effect at DMV as of November 12, 2009 is sufficient to meet the security objectives of this audit.

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<sup>1</sup> The ACH Network is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system governed by the NACHA OPERATING RULES which provide for the interbank clearing of electronic payments for participating depository financial institutions. The Federal Reserve and Electronic Payments Network act as ACH Operators, central clearing facilities through which financial institutions transmit or receive ACH entries. Source: [www.nacha.org](http://www.nacha.org)

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## BACKGROUND

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In 2006, DMV added an EFT payment option known as e-check for DMV Internet customers who want to renew their vehicle registration online. In 2007, the DMV added the e-check payment option for online renewal of a driver license. The EFT e-check internet-initiated entries are subject to National Automated Clearing House Association (NACHA) Operating Guidelines.

NACHA, the Electronic Payments Association is a not-for-profit association that oversees the ACH Network and develops operating rules and business practices for the ACH Network. ACH processes include electronic payments in the areas of Internet commerce, electronic bill and invoice payment, e-check, and financial electronic data interchange.

According to NACHA, Originators of internet-initiated entries that have the entry class code "WEB" are required to conduct an annual WEB audit. In addition, Union Bank (ACH provider for DMV during this review period) requires that DMV make available a certification ("Union Bank Annual WEB Audit Certification 2009") that the business has completed the ACH WEB Originator annual audit in compliance with the ACH Operating Rules.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

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The audit objectives were to determine whether internet-initiated (WEB) entries for DMV's EFT e-check payment option comply with the requirements set forth in the 2009 ACH Rules book as well as applicable statutes and regulations stated in the Government code. Of primary concern to DMV is the protection of customer information collected, transmitted, and distributed via the online process. Accordingly, we developed an audit plan to determine whether:

- The Department adheres to the provisions of the NACHA 2009 ACH Rules Book and complies with applicable rules and regulations.
- Fraud detections systems are adequate to screen each WEB entry.
- Procedures are in place to verify the validity of routing numbers.
- Adequate methods are in place to verify the identity of the Receiver.
- Physical security measures exist to protect against theft, tampering, or damage.
- Personnel and access controls are in place to protect against unauthorized access and use.
- Network security exists to ensure secure capture, storage, and distribution of customer's information.

Our scope included a review of the items noted above during the review period July 1, 2008 through June 30, 2009. Moreover, our review incorporated follow-up of three prior audit findings observed during the 2008 NACHA audit. During the 2008 review, we noted deficiencies in the following areas:

- Unsecured physical location of personal computers used to process Electronic Funds Transfer (EFT) Transactions.
- Customer financial information can be transmitted with an encryption level less than recommended standard.
- No EFT data retention policy and monitoring schedules.


We conducted this audit in accordance with *Government Auditing Standards* promulgated by the United States General Accountability Office. Our evaluation and methodology included such demonstrations and observations as considered necessary to meet our objectives. Our procedures included interviews with applicable DMV and Office of Technology Services staff and management; discussion of relevant EFT processes with the ASD Electronic Transactions Unit and ISD eGov Programming Team, and review and verification of other documentation.

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## CONCLUSION

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Our audit evaluation found, that taken as a whole, the current security controls in effect for DMV's Web based services meet the requirements set forth in the 2009 ACH Rules and applicable statutes. The online EFT applications incorporate various security features to authenticate Receivers and their associated payment transactions. In addition, the Electronic Payment Services Unit within the ASD has adequate security controls in place to protect customers' financial information. Furthermore, we find that the Department of Motor Vehicles has implemented corrective measures to address prior deficiencies observed during the 2008 NACHA audit. However, because of inherent limitations in control systems, errors or irregularities may occur and not be detected. Therefore, projection of any evaluation of systems to future periods are subject to risk because procedures may become inadequate due to changes in conditions, or the degree of compliance with the procedures may deteriorate.



**GRACE M. RULE-ALI, Manager**  
Information Systems-Requester Audit Section  
November 12, 2009

Review Team:  
Laura Lundgren, Supervisor  
Mark Prichard, Auditor-In-Charge  
Andrew Lau, Auditor

# Union Bank

## Annual WEB Audit Certification 2009

I certify that our business has completed the ACH WEB Originator Annual Audit in compliance with the *ACH Operating Rules*, Appendix Eight.

DATE 11/18/09		
CUSTOMER NAME Department of Motor Vehicles		
CUSTOMER TAX ID NUMBER [REDACTED]		
ADDRESS 2415 1st Avenue	CITY Sacramento	STATE CA
CUSTOMER CONTACT (name and title) JERRY MCCLAIN, AUDIT CHIEF SIGNED BY ACTING AUDIT CHIEF		TELEPHONE (916) 657-0455
SIGNATURE ALLEN CUMMINGS [REDACTED]		E-MAIL ADDRESS JMcClain@DMV.CA.gov